29 October, 2004

MANAGING DIRECTOR'S ADDRESS

To the Annual Meeting of Shareholders
In Auckland on Friday, 29 October,2004

As the Chairman has said, the proposed acquisition of the Akzo Nobel Coating Resins business represents a major opportunity. I believe the day we acquire this business will prove to be a key date in the history of Nuplex. It will stand alongside 3 other highly significant dates: 1952, when the original company Floor Tiles & Parquet was formed, around 1960 when the first resin plant was commissioned in Auckland, and 1998 when we acquired Australian Chemical Holdings, a company twice our size at that time.

The reality of the current Nuplex resins business is that it is somewhat a victim of its own success. We have achieved significant market share in most sectors of our principal markets in New Zealand and Australia, to the extent that to achieve much more is unrealistic. Yet, as a company committed to growth in shareholder wealth, we needed to find an avenue for business expansion. Asia has been our immediate focus and while this remains a key and expanding market, it does not in itself add any other dimension than volume and revenue to our business.

Shareholders may recall at last year's Annual Meeting that I dealt with two significant matters for the company; a planned entry into China, and a need to invest additional resources in technology development. China was initially dealt with through our Veeya Resins acquisition in July of this year while the merger with the Coating Resins business provides both further China capacity, and a ready made addition to our technology resources.

In Arnhem in The Netherlands, they have a laboratory focussed exclusively on innovation technology. This is the “Dream Factory” where fundamental research is undertaken into chemical reactions that hopefully will find applications in practical resins for industry. Such a facility is key to achieving leadership and differentiation in highly functional technical products. Specialised laboratories in Bergen op Zoom, The Netherlands, and Louisville, Kentucky in the US, undertake major product and application development. Innovations made by the Arnhem scientists are coupled with process and application know how, to provide new resins that will substantially dictate performance of the ultimate paint formulations. In many cases such resins are then patented. It is our intention to utilise these superior technical facilities to not only maintain Coating Resins strong market position, but to also provide traditional Nuplex resin businesses with much needed research and development support.

A look at the spread of manufacturing facilities available to the combined group in the future provides an insight into its ability to service significant parts of the global market. It is our intention to leverage this network to deliver a broader range of products to a larger market. We will be able to use existing manufacturing facilities with minimal additional capital expenditure. This will provide volume growth and reduce unit operational costs. Specialised sales and technical service functions may need to be developed within existing marketing frameworks to support entry into new market segments. This will come at relatively low cost. We expect to see a flow of technology from both the Coating Resins business to Nuplex, and from Nuplex to Coating Resins. This, rather than synergy benefits through consolidation, is how Nuplex intends to deliver improved performance from the proposed acquisition.

Akzo Nobel Coating Resins has a broad exposure to most segments of the paint manufacturing market. Some 63% are currently common to Nuplex with our lack of participation in the other segments being principally due to an absence of appropriate technology. The merger of the two businesses will correct this.

Coating Resins has a strong market position, and an excellent reputation amongst its customers. It is currently profitable, and forecast to be more so in the future. It will add to our ability to pay higher dividends in its first full year and promises to be the new engine of growth for the next decade.

Australia will remain the groups largest market with some 39% of total sales, however, this proposed acquisition will substantially change the nature of the organisation with some 87% of future business being done in currencies different from the one in which we report - the NZ$. This may have some implications for how we report in future.

We have been impressed by the manufacturing facilities, the quality of the people, and their relationships with customers. There is already a good camaraderie between the two teams. Both contain highly experienced resin professionals. I expect that the new, expanded Nuplex team will continue the process of building a stronger company, and creating shareholder wealth, and I look forward to the support of shareholders at our up-coming EGM.

Let me come back to more immediate matters of our current performance, and our expectations for the full financial year.

Firstly, I am pleased to report a successful first quarter in what promises to be a challenging year.

Our business is simple. It is about sales volumes, raw material costs, and operational cost control, and on all these counts we have scored well.

The Construction Products division continues to see strong demand for its products and has registered growth in all three business segments this year; resin flooring, resilient flooring, and cladding. It has successfully recovered raw material cost increases and has all other costs under excellent control. While New Zealand continues to be the dominant market, it is pleasing to see sustained recovery of our fledgling Australian operations which are now consistently profitable. The division is comfortably ahead of last year's first quarter performance and the outlook is good.

The feature of the September quarter in our Environmental Services business has been solid revenue gains in the industrial hazardous waste sector, and improved cost control. Results so far this year are as a consequence, substantially ahead of last year and there is confidence that the business can maintain this momentum. Construction of the new processing plant at the United Environmental site at East Tamaki will commence shortly.

Speciality Products has seen continuing good demand and produced a profit in both New Zealand and Australia in line with last year's first quarter result. Newly acquired businesses have contributed and offset those segments where performance has retreated somewhat through a combination of low margins from increased import competition; lost sales through an inability to source resale materials in a tight supply market; and some delay in receiving anticipated export orders. We expect similar conditions going forward but will receive benefit from a number of business initiatives and investments aimed at operational efficiency.

Resins, our principal reporting division continues to experience ongoing demand in the first quarter, similar to last year, although there is some variation across individual segments; coating resins remain steady, paper has seen some weakening, and composites continues to be the performance leader. Conditions in Australia and New Zealand are similar while in Vietnam, we have experienced very strong demand. The market has reacted well to our entry into China, and volumes to the vendor company, and third party independent paint companies, are much in line with expectations.

International raw material costs have been a key management focus. The first quarter saw an average increase in price of our material inputs of some 10% driven by a combination of oil prices, energy costs, and an imbalance in supply of petrochemical based materials. These costs were fully recovered so protecting the margins achieved in the final quarter of last year.

Sustained demand, raw material cost recovery, and tight control of operational costs in the year to date has provided an excellent platform from which to build a successful year. The view of the remainder of this financial year however is that success will be highly tied to an ability to recover further substantial increases in raw material prices.

New Zealand and Australian economies continue to be strong, with on-going growth in gross national expenditure expected. It is this measure that largely determines demand for our broad product range, rather than any specific market segment. Higher selling prices as a result of increased fuel and material costs will be passed through to the ultimate customer in time, but we must wait and see whether this has any significant impact on demand.

Within the Asian region, we anticipate Vietnam to continue to register double digit growth, China to be slow, and South East Asia generally to be steady. In short, for the foreseeable future we expect volume sales for mature businesses to be at or slightly above 2003/04 levels, but group volumes will be higher in total, primarily through the influence of new investments in Asia.

Investment in manufacturing capacity and process, and growth in volumes, will maintain operational unit costs at current levels. However, cost of regulatory compliance is largely out of our control, and becoming more of a factor. We expect the ratification of the Kyoto Agreement to be the next expense for manufacturing. This industry segment already bears an unduly high burden that has the possibility of rendering it uncompetitive against our Asian neighbours.

We had forecast raw material increases for this year would be such that costs would be on average 20% higher than last year. It seems now more likely that we have under-estimated this from data received in the past few days. Recovery of these higher costs through pricing is essential to maintain margin and it is pleasing to see that the industry is experiencing very good discipline in this regard. Over the balance of the year, we expect some instances where recovery will be delayed, and these are likely to erode gains made to date. At this stage however, we have reason to presume that in general, we will achieve the price increases we need to maintain historical margins.

In addition to higher prices of raw materials, shortages are now becoming a reality, and it is almost certain that we will not be immune from these in any of our businesses. It is here that our historical investment in relationships with key suppliers should provide us with a preferential position during this period when demand is outstripping supply for petrochemicals.

In summary, we have enjoyed an excellent start to the new financial year and current run rate is significantly ahead of the same time last year. All of our divisions are at or ahead of last year's performance after the first quarter, and we see no material change in demand pattern going forward. We recognise however a very difficult business environment will exist for the balance of this financial year. With our experienced management team and a well informed customer base, we expect to weather it appropriately.

With more than 70% of group EBITDA being earned outside of New Zealand, our reported result will be negatively impacted by approximately $3.7m EBITDA due to the current strength of the New Zealand dollar. In spite of this, we are pleased to indicate that we expect to deliver a net surplus in the range of $30 – 32 million for the historical Nuplex business, much in line with the normalised profit for the prior year. Should the New Zealand dollar retreat to last year's translation rate with the Australian and US currencies, net surplus before abnormals could increase to more than 8% ahead of last year.

I trust this gives you a clear view of our business progress and expectations. Thank you for your attention.

John Hirst
Managing Director